

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 IGA-02 EB-11 COME-00 TRSE-00

CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03 NSAE-00 NSC-07

PA-04 RSC-01 PRS-01 SP-03 SS-20 USIA-15 MMS-03 CU-04

ACDA-19 AGR-20 OMB-01 OPIC-12 PC-10 PER-05 ABF-01

DRC-01 /204 W

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R 122255Z JUN 74

FM AMEMBASSY GUATEMALA

TO SECSTATE WASHDC 3377

C O N F I D E N T I A L GUATEMALA 3202

E.O. 11652: GDS

TAGS: PFOR, GT

SUBJECT: RESULTS OF GUATEMALAN CASP PRE-IG

REF: STATE 119203

FOLLOWING RESPONSES ARE KEYED TO PERTINENT PARAGRAPHS OF REFTTEL:

3.A. CT CONCURS IN LOWERING LOC ON OPEN CHANNELS OF
COMMUNICATION FROM HIGH TO MEDIUM.

3.B. RECOMMENDED GRANT MAP-M LEVEL FOR FY 75 REMAINS
\$111,000 AS STATED. THE EDA ENVISIONED IS EXPECTED TO
COME MOSTLY FROM OVERSEAS, NONCHARGEABLE TO MAP-M
ALLOCATIONS. PAST EXPERIENCE WITH EDA HAS SHOWN THAT THE
BULK OF ITEMS NEEDED BY HC ARE LOCATED OVERSEAS. WE
ARE AWARE THAT ITEMS FROM CONUS WOULD BE CHARGED
AGAINST OVERALL MAP-M LEVEL AND WILL PROGRAM ACCORDINGLY.

3.C. CT SEES NO PROBLEM IN TERMINATING GRANT
MATERIEL ASSISTANCE TO GUATEMALA BY END OF FY 76 IF PROGRAM
IS ALSO SIMULTANEOUSLY TERMINATED IN ALL OTHER CENTRAL
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AMERICAN COUNTRIES. TERMINATION IN CONTEXT OF HEMISPHERE-

WIDE CUT-OFF WOULD CAUSE EVEN LESS OF A RIPPLE. MAP-M ASSISTANCE IS OF COURSE APPRECIATED BY HOST COUNTRY BUT NOT ESSENTIAL TO MEETING OUR OBJECTIVES, ESPECIALLY IF NO OTHER C.A. COUNTRIES ARE GETTING IT. OUR PRIMARY OBJECTIVE OF MAINTAINING INFLUENCE AND GOODWILL IN GUATEMALAN MILITARY CAN BE MET BY A CONTINUATION OF MAP-T AND FMS. RE GUATEMALAN DECISION NOT TO ACCEPT OFFER OF \$1 MILLION FMS-C IN 1974, WE BELIEVE THIS STEMMED FROM FACT THAT ARMY HAS NOT WANTED TO MAKE MAJOR PURCHASES UNTIL IT GETS PRESIDENT-ELECT LAUGERUD'S IDEAS ON WHAT SHOULD BE BOUGHT, AND LAUGERUD HAS SIMPLY NOT TAKEN THE TIME TO FOCUS ON THIS QUESTION. WE BELIEVE THAT GUATEMALANS WILL BE WILLING TO BUY WHAT THEY REALLY NEED, AND THAT U.S. WILL CONTINUE TO HAVE INSIDE TRACK AS PRIMARY SOURCE FOR MAJOR PURCHASES SO LONG AS OUR EQUIPMENT AND CREDIT TERMS ARE COMPETITIVE.

4. CT SHARES WASHINGTON'S CONCERN. HOWEVER, BASED UPON A REVIEW OF THE PRACTICAL CONSIDERATIONS INVOLVED, WE BELIEVE THAT IT IS HIGHLY LIKELY THAT THE SMALL FARMER IMPROVEMENT LOAN WILL SLIP TO FY 76. THEREFORE, AID HAS EXPRESSED ITS INTENT TO MODIFY PROJECTED LOAN PROGRAM IN THE FY 76 FIELD BUDGET SUBMISSION BY PLACING ONLY THE EDUCATION LOAN IN FY 75. IF IT IS POSSIBLE, HOWEVER, THIS LOAN MAY BE EXPANDED TO INCLUDE CERTAIN ELEMENTS OF THE NON-FORMAL RURAL EDUCATION LOAN, NOW PLANNED FOR FY 76. IF NOT, AND IN VIEW OF THE NEW INITIATIVES, REQUESTED BY AID/W, THE SMALL FARMER IMPROVEMENT, NON-FORMAL RURAL EDUCATION AND RURAL HEALTH DEVELOPMENT LOANS WILL BE ALL SCHEDULED FOR FY 76.

5. GUATEMALA HAS EXPERIENCED SEVERE PRICE INFLATION DURING THE PAST TWO YEARS. A CONTRIBUTING CAUSE HAS BEEN A POORLY CONCEIVED AND IMPLEMENTED MONETARY POLICY. IN GUATEMALAN TERMS, IT HAS BEEN AN UNRESTRAINED MONETARY POLICY. MONEY SUPPLY, BROADLY DEFINED TO INCLUDE SAVINGS AND TIME ACCOUNTS, JUMPED Q260.6 MILLION (67.1 PERCENT) BETWEEN DECEMBER 1971 AND MARCH 1974. THE FOREIGN ACCOUNTS, LED BY THE COMMODITY EXPORT BOOM, WERE RESPONSIBLE FOR ABOUT 55 PERCENT OF THIS EXPANSION. THE CONTRIBUTION OF THE

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GOG'S DEFICIT FINANCING WAS ABOUT 35 PERCENT. THE GOG'S MONETARY POLICY IS WORKED UP IN THE FORM OF A MONETARY BUDGET THAT SETS PRIMARY EXPANSION TARGETS. ASSUMING THE FOREIGN ACCOUNTS ARE PROJECTED TO HAVE A NETURAL OR CONTRACTIVE IMPACT AS A RESULT OF PETROLEUM IMPORTS PUSHING THE CURRENT ACCOUNT INTO DEFICIT, THE GOG WOULD THEORETICALLY BE FREE TO PERMIT ALL OF ITS PREDETERMINED LEVEL OF MONETARY EXPANSION TO RESULT FROM DEFICIT

FINANCING. FOR EXAMPLE, IF THE TARGET IS 12 PERCENT (6 PERCENT FOR REAL ECONOMIC GROWTH AND 6 PERCENT FOR PRICE INFLATION), DEFICIT FINANCING IN THE YEAR FROM MARCH WOULD BE Q25 MILLION.

8. AMBASSADOR AGREED RETAIN USIS AMERICAN STAFF AT FOUR OFFICERS THROUGH FY 75 BUT DESIRES REVIEW REQUIREMENTS FOR FY 76 AT LATER DATE.

10. ARE WE CORRECT IN ASSUMING THAT REFERENCE TO PUBLIC SAFETY WAS DROPPED BECAUSE IT IS CONTEMPLATED THAT PUBLIC SAFETY TRAINING IN THE U.S. WILL COME FROM WORLD-WIDE FUNDING AND NOT BE CHARGED TO INDIVIDUAL COUNTRY PROGRAMS? WE BELIEVE THAT A MODEST AMOUNT OF TRAINING IS WORTHWHILE AND SHOULD BE PROVIDED FOR IN GUATEMALAN PROGRAM IF IT IS NOT FUNDED SOMEWHERE ELSE .
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